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TO RUEHC/SECSTATE WASHDC 5500
INFO RUEHBO/AMEMBASSY BOGOTA 4664
RUEHBR/AMEMBASSY BRASILIA 7346
RUEHBU/AMEMBASSY BUENOS AIRES 2891
RUEHCV/AMEMBASSY CARACAS 0397
RUEHLP/AMEMBASSY LA PAZ MAY QUITO 1218
RUEHSG/AMEMBASSY SANTIAGO 1281
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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RHEBAAA/DEPT OF ENERGY WASHDC
RUEHBS/USEU BRUSSELS

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USEU FOR DCM MCKINLEY
TREASURY FOR U/S TAYLOR, KKOZLOFF, MSHWARZMAN, AJEWELL
STATE PASS TO EXIM MHASAN/SPARSONS
ENERGY INFORMATION ADMINISTRATION FOR CHARLES ESSER
DOE FOR GWARD/SBROWNE

E.O. 12958: N/A

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SUBJECT: PERU LNG: NEW PIPE, BUT NO NEW JUNGLE PIPELINE

REF: (A) 06 LIMA 3896 (B) Lima 3686 (C) Lima 742

¶1. SUMMARY: Camisea gas transporter TGP and Peru LNG operator Hunt Oil agreed to a tariff for TGP to transport Peru LNG gas for the jungle portion of the shared gas pipeline. This agreement obviates any need that might have seemed present for a new gas pipeline to be laid in the environmentally and socially sensitive jungle section. Both companies will now move ahead with previous pipelines plans, with shared pumping stations and control. From the beginning, the designs of the Camisea and Peru LNG projects contemplated additional gas pipe for Peru LNG, from the mountains west to the coastal Peru LNG site. There is no change in the plan for both projects to share the existing liquids pipeline. END SUMMARY.

BACKGROUND - DESIGN OF CAMISEA

¶2. As Reftels explain, the Camisea natural gas project was designed with eventual additional gas load in mind, whether from Peru LNG or development of other gas concessions in the vicinity of the Malvinas gas processing plant (in Block 58) and the San Martin and Cashiriari gas fields in Block 88. The gas line was constructed with 32-inch diameter pipe for the portion from the separation plant in Malvinas to the start of the Andes Mountains; the size is greater than needed for the expected flow of Block 88, but is large enough for the gas from an additional concession blocks such as the adjacent Block 56 from which the Peru LNG project will get its gas. The more expensive pipe was used to avoid the engineering challenges, and environmental sensitivity associated with construction and operation of another gas pipeline in the unstable terrain of the Amazon jungle section. The plan for the new extraction sites for Peru LNG has always contemplated piping to connect to the separation plant in Malvinas.

¶3. At around km 212, the Andes Mountains create less environmental sensitivity and the Camisea pipe steps down to 18-inches, later reducing once more to 12-inch pipe in the relatively flat coastal desert. The 18- and 12-inch gas pipe sections are not large enough to accommodate the increased gas volume from the Peru LNG (liquified natural gas) project; Peru LNG (operated by Hunt Oil) will need to build a separate, 34-inch pipeline from approximately km 212 to the Peru LNG plant site, about 80km north on the coast from the Camisea

fractionation plant in Pisco. Peru LNG's plan is to parallel the existing Camisea gas and liquids pipelines as much as possible; using the existing Camisea route will minimize environmental impact, engineering challenges and impacting local communities. TGP will operate Peru LNG's pipeline out of its sophisticated remote sensing control center near Lima.

¶4. The liquids pipeline that now runs parallel to the gas pipeline to Pisco (near Pisco the gas pipeline cuts north to its terminus just south of Lima) will not change. The Malvinas separation plant will expand to accept the Peru LNG product extracted from Lot 56, and will separate it into gas and gas liquids just as currently occurs with Camisea extraction. The liquids pipeline flow will increase to accommodate the additional liquids, but no new pipeline will need to be built; additional processing structures will be built at the Pisco fractionation plant to process those additional liquids.

SO WHAT IS NEW?

¶5. Media reports recounted what appeared to be stalled negotiations between Peru LNG and Transportadora de Gas del Peru (TGP), the operator of the Camisea gas and liquids pipelines, over the tariff TGP would charge for transporting Peru LNG gas through the 32-inch jungle pipe. Peru LNG held out the possibility that if negotiations failed, Peru LNG would have to build its own gas pipeline for the sensitive jungle portion. The tariff deal was finalized by Hunt and TGP on March 22, so there will be no new pipeline in the jungle portion.

¶6. Environmental impact assessment (EIA) processes are proceeding satisfactorily, according to the Environmental Division of the Ministry of Mines and Energy (MEM). The EIA for the new gas pipeline was approved in September 2006. New pipelines are under consideration to connect the Camisea gas pipeline to other cities in the Andes such as Ayacucho, La Oroya and Cuzco.

¶6. A description of the new Peru LNG gas pipeline that has always been planned, along with a map, can be found at http://www.perulng.com/proj_pipeline.asp. A map of the existing Camisea pipelines can be found at <http://mirror.perupetro.com.pe/exploracion01-e.asp>.
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